information pertaining to public hearing scheduled for Dec. 6, 2010

CAPITAL IMPROVEMENT BOND PROJECTS

Budget and Five Year Plan
2011 - 2015

Public Hearing - December 6., 2010

INTRODUCTION

Annually the City prepares a Capital Improvement Budget and Five Year Plan. This plan is comprehensive and outlines capital improvements citywide, as well as identifies funding sources for all projects. One important funding source is general obligation bonds, allowable under Minnesota State Statutes, Section 475.521. Following the requirements in that law, the City may only fund certain types of improvements and must also follow a defined process including holding a public hearing to receive input from interested citizens.

This handout outlines the criteria established in state law, provides information on the city's debt and capital policies, and finally describes the proposed projects and estimated costs.

The proposed Capital Improvement Bond Projects 2011 Budget and Five Year Plan represents the seventh year of this program and is offered for public input at tonight's public hearing, as well as for Council review and approval.

CAPITAL IMPROVEMENT BOND PROJECTS REQUIREMENTS

The list of projects included in the Capital Improvement Bond Projects budget and Five Year Plan meets the established requirements for issuing bonds under state law. Those requirements are summarized below.

Eligible Improvements - the City may only issue capital improvement bonds for certain types of improvements. They would include the acquisition or betterment of public land, buildings, or other improvements for the purpose of a city hall, a public safety facility, a library, or a public works facility. The City may not issue capital improvement bonds for light rail transit; parks; roads, bridges, or administrative buildings other than city hall. The improvements must have an expected useful life of at least five years.

Debt Limit - the City may incur only a limited amount of capital improvement bond debt. Specifically, the City may not issue capital improvement bonds if the maximum amount of principal and interest, due in any year on all outstanding capital improvement bonds, including the bonds to be issued, would equal or exceed 0.16 percent of the taxable market value of the property in the City. Based on the Assessor's market value for taxes payable in 2011, the maximum would be $8.79 million.

Capital Improvement Plan - In order to issue capital improvement bonds for a specific improvement, the City Council must first adopt a capital improvement plan. The plan must cover a five year period. It must contain the following information for each project included in the plan: the estimated schedule, timing and details of the improvement; the estimated cost; the need for the improvement; and the sources of revenue to pay for the improvement. The City Council must consider all of the criteria listed above in the Introduction section of this document. The Council must hold a public hearing on the plan, and must, in resolution format approve the plan and any amendments to the plan.

Issuing Capital Improvement Bonds - After the Council has adopted the capital improvement bond projects plan, the City may issue capital improvement bonds without the election requirements of Minnesota Statutes, Chapter 475. When issuing bonds, the City must publish a notice of intent to sell bonds, hold another public hearing, and adopt a resolution declaring the City's intent to issue. A referendum process may be authorized through the petition process. If no petition is filed, the City Council may approve the sale of the bonds.

PROPOSED PROJECTS FOR BOND FINANCING

A total of five improvement projects are identified in the plan over the five year period at a total anticipated cost of $10.223 million. A portion of each of these five improvement projects are set to be financed through bonds in 2011 at an estimated cost of $2,164,500. The proposed term of the debt issue will be ten years, with an anticipated annual debt expense of $258,000. The specific projects follow this section.

OVERLAPPING DEBT

The City's proportionate shares of general obligation debt and general obligation revenue debt at December 31, 2009, of all governmental entities which provide services in the City's borders, and which must be borne by properties in the City is summarized below.

Unit	General Obligation Debt	Percent	Amount Chargeable to City
Independent School Dist. 709	$72,910,000	88.3%	$64,379,530
Independent School Dist. 704	23,620,000	6.6%	1,558,920
St. Louis County	40,630,000	36.2%	14,708,060
			$ 80,646,510

Capital Budget Policy

The objective of the capital improvement budget policy is to ensure maintenance and replacement of public infrastructure and equipment in the most cost-efficient manner. The City will make all capital improvements in accordance with the adopted capital improvement and capital equipment budgets.

Capital Improvement Program - The City will develop a five-year Capital Improvement Program (CIP) with the annual operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts. All construction projects will include a contingency for unexpected costs.

Capital Equipment Program – The City will prepare a Capital Equipment Program budget each year. Capital equipment includes rolling stock, technology projects including software and hardware, and other equipment that has a life expectancy of three years or more.

Operating Budget Impact - The City will project its equipment replacement and maintenance needs on a multi-year basis, and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and submitted for administrative review.

Operating expenditures/savings of each capital project request are included in the cost of implementing the project and reflect estimates of all personnel expenses and other operating costs attributable to the capital outlays. Departments receiving capital funds must account for the increased operating costs resulting from capital projects.

The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the City Council for approval. The City will determine the least costly financing method for all new projects.

Repair and Replacement - The City strives to maintain its physical assets at a level that protects the City's capital investments and minimizes future maintenance and replacement costs. Where possible, the capital budget shall provide for the maintenance, repair and replacement of capital plant and equipment from current revenues. The City will gather useful information pertaining to the condition of capital assets, use the data accumulated to identify capital and maintenance needs, and maintain current and accurate asset inventories.

Funding/Financing – The City will determine the least costly method of funding for all new City projects. The City will use inter-governmental assistance to finance only those capital improvements that are consistent with City priorities, and whose operating and maintenance costs have been included in operating budget forecasts.
Permanent street improvements will be financed primarily by the City's share of revenues generated from the operations of the Fond-du-Luth Casino owned and operated by the Fond du Lac Band of Lake Superior Chippewa.

Debt Management Policy

Objective - The objective of the Debt Management Policy is to provide a framework for managing the City's capital financing and economic development activities in a way that preserves the public trust and balances costs to current and future taxpayers without endangering essential City services.

Authority and Oversight - Management responsibility for the City's debt program is delegated to the Chief Financial Officer. The Debt Management Committee advises the CFO on the use of debt financing and debt management activities. The Debt Management Committee meets periodically at the call of the CFO and includes the following persons:

- Chief Financial Officer
- City Auditor
- City Treasurer
- Chief Administrative Officer
- Independent Financial Advisor as needed
- Independent Bond Counsel as needed

Method of Sale - The three primary methods of selling bonds include competitive sale, negotiated sale and private placement. The City uses the competitive sale method for general obligation bond sales unless factors such as structure, size or market conditions compel the use of a negotiated sale. The City may use the negotiated sale method on economic development related projects when the characteristics of the transaction require a more specific marketing plan and/or the issue lacks an investment grade rating due to complex security provisions or other factors.

Selection of Independent Advisors - The City uses competitive processes to select all service providers involved in the bond issuance process.

Short-term Debt - The City limits issuance of short-term debt for cash flow purposes, generally using cash reserves and investment practices to ensure that adequate liquidity exists to pay for expenditures during the year.

General – In addition, the following policy items apply:

- The City will not incur long-term debt to support current operations;
- The City will retire any Tax/Aid Anticipation Certificates on Indebtedness within the year for which they were issued;
- The City will maintain a sound relationship with bond rating agencies, and will keep them informed about current financial conditions;
- The City will continue the practice of full disclosure, as it pertains to all financial reports and bond prospectus;
- The City will confine long-term borrowing to capital improvements, equipment or projects that are not appropriately financed from current revenues; and
- The City will strive to achieve and maintain an Aa2 rating from Moody's.

Bond Specifics:

General Obligation Bonds, Property Tax Supported - General obligation property tax supported bonds finance only those capital improvements and long-term assets that have been determined to be essential to the maintenance or development of the City.

General Obligation Revenue Bonds - The City issues general obligation revenue bonds to finance assets associated with its primary enterprise businesses including storm water and sanitary sewers, water and gas utilities, golf, street lighting and parking ramps. Financial feasibility of capital projects is reviewed each year, including a review of the cash basis pro formas for these funds. Five-year business plans detailing projected operating costs and prior debt obligations are reviewed as well as revenue performance and rate setting analysis to ensure that adequate bond coverage ratios are achieved.

Tax Increment Bonds - The City uses tax increment bonds only where projects can be shown to be self-liquidating from tax increments arising in sufficient amounts, or where secured guarantees are provided for potential shortfalls, and with appropriate timing to avoid, to the maximum extent possible, the use of citywide property tax revenues and where maximum allowable guarantees are obtained.

The City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, subject to the terms and conditions of a development agreement with the City.

Alternatives, such as "pay as you go" financing and reimbursing front-end public redevelopment costs with tax increment revenues, or with tax abatement are preferable to bond financing and are to be considered and used when appropriate.

Conduit Debt Obligations - These obligations include industrial revenue bonds for which the City incurs no financial or moral obligation and are issued only if the associated development project can be shown to be financially feasible and will contribute substantially to the welfare and/or economic development of the City and its inhabitants.

Bond Term - The City shall issue bonds with terms no longer than the economic useful life of the project, and endeavor to keep the maturity at or below 20 years. For self-supporting bonds, maturities and associated debt service shall not exceed projected revenue streams.

Feasibility - The City shall obtain secured guarantees for self-supporting and tax increment supported bonds to the extent possible. The City shall also obtain assurances of project viability and guarantees of completion prior to the issuance of bonds.

Capital Improvement Program Bond Summary

A portion of the Capital Improvement program is funded using general obligation bonds for those types of projects that are eligible - city hall, public safety facilities, libraries and public works facilities. The following represents the proposed 2011 program as well as 2012 through 2015 which collectively makes up the City's five year capital improvement bond program. For 2011, $2,164,500 is proposed, with a term of ten years for an estimated annual debt expense of $258,000. The specific projects follow this section.

Projects	2011	2012	2013	2014	2015	Total
Buildings City-Wide	445,000	720,000	1,225,000	1,100,000	1,175,000	4,665,000
City Hall	789,000	560,000	110,000	110,000	110,000	1,679,000
Fire	630,500	1,009,000	250,000	625,000	480,000	2,994,500
Library	300,000	250,000	250,000			800,000
Maintenance Shop		95,000				95,000
Total	2,164,500	2,634,000	1,835,000	1,835,000	1,765,000	10,233,500

Funding	2011	2012	2013	2014	2015	Total
Capital Improvement Bond	2,164,500	2,634,000	1,835,000	1,835,000	1,765,000	10,233,500
Total	2,164,500	2,634,000	1,835,000	1,835,000	1,765,000	10,233,500

Buildings City-Wide

Description:

Many remote sites are being heated with boilers or furnaces which are 20 years old. Replacing these with modern, high efficient units with electronic controls can realize 15% annual energy savings over the continued life of the structure.

There is a city wide need for a cold storage facility to serve all departments. Consolidation and centralization of all files, equipment and facility furnishings will allow development of standardized filing and reduce staff time on recovering same.

In 2009, the city received an energy efficiency and conservation block grant from the U.S. Department of Energy through the American Recovery and Reinvestment Act (ARRA). The implementation phase of this grant will prioritize the facilities needs as determined by energy audits.

Project	2011	2012	2013	2014	2015	Total
Furnace/Boiler Replacements	50,000			150,000	175,000	375,000
Masonry Repair		150,000	150,000			300,000
Storage Buildings	120,000	190,000	75,000			385,000
Security/Entry Systems	125,000	125,000				250,000
Facility Needs Priorities (ARRA)	150,000	255,000	1,000,000	950,000	1,000,000	3,355,000
Total	445,000	720,000	1,225,000	1,100,000	1,175,000	4,665,000

Funding	2011	2012	2013	2014	2015	Total
Capital Improvement Bond	445,000	720,000	1,225,000	1,100,000	1,175,000	4,665,000
Total	445,000	720,000	1,225,000	1,100,000	1,175,000	4,665,000

City Hall

Description:

City Hall windows were installed in the mid 1970's under less than optimal window manufacturing conditions. All sashes are warped and require maintenance staff to manually close during the fall season change.

Projects include:

- Continuing four year plan to replace 32 year old windows
- Modernize to accommodate reorganizations and department consolidations
- MIS office space remodeling
- Data Closet Wiring
- Data Center Air Conditioning

Project	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Modernization/Remodeling	80,400	110,000	110,000	110,000	110,000	520,400
Window Replacement	525,000	450,000				975,000
MIS Office Space	33,600					33,600
Data Closet Wiring	110,000					110,000
Data Center Air Conditioning	40,000					40,000
Total	789,000	560,000	110,000	110,000	110,000	1,679,000

Funding	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Capital Improvement Bond	789,000	560,000	110,000	110,000	110,000	1,679,000

Fire Department

Description:

Over the next five years, the City is proposing to invest almost $1.8 million in repair and maintenance projects, and energy improvements at firehalls throughout the City. Repair and maintenance projects consist of masonry and and brick repair; remodeling and carpeting; and driveway overlays as necessary. Energy improvements consist of installing new windows and overhead doors, as well as replacing furnaces and roofs. Improvements in the ventilation systems in various firehalls continues the effort to install capture at source systems to reclaim diesel exhaust from apparatus upon start.

$1.2 million is proposed for the purchase of a new communication system as mandated by the FCC. The City is moving to the ARMER communication system (a state system) to meet the narrow band compliance deadline of January 1, 2013.

Project	2011	2012	2013	2014	2015	Total
Firehall #1 Masonry				50,000		50,000
Firehall #1 Remodel			250,000			250,000
Firehall #1,4,7 Overlays		35,000				35,000
Firehall #2 Repair/remodel	90,500					90,500
Firehall #2 Roof Replacement				250,000		250,000
Firehall #4 Window Replace	60,000					60,000
Firehall #4 & 7 Brick Repair				100,000		100,000
Carpet Replacement		54,000				54,000
Communication System	480,000	720,000				1,200,000
Furnace Replacements					50,000	50,000
Roof Replacements					250,000	250,000
Keyless Entry System				100,000		100,000
Overhead Doors		100,000		75,000	120,000	295,000
Ventilation		100,000		50,000	60,000	210,000
Total	630,500	1,009,000	250,000	625,000	480,000	2,994,500

Funding	2011	2012	2013	2014	2015	Total
Capital Improvement Bond	630,500	1,009,000	250,000	625,000	480,000	2,994,500

Library

Description:

The main library mechanical system is the original installation and has not seen major energy modifications or maintenance upgrades since its installation. Current energy demands, coupled with increased air quality concerns necessitate a review, cleaning and upgrade to mechanical equipment, controls and delivery components.

An estimated savings of 10% annually in fuel/energy consumption at this building alone will result in operating savings of approximately $14,000 annually, based on today's energy costs and current consumption.

Project	2011	2012	2013	2014	2015	Total
Mechanical Systems	300,000	250,000	250,000			800,000
Total	300,000	250,000	250,000			800,000

Funding	2011	2012	2013	2014	2015	Total
Capital Improvement Bond	300,000	250,000	250,000			800,000
Total	300,000	250,000	250,000			800,000

Maintenance Shop

Description:

In our city's ongoing effort to honor commitments to Cities for Climate Protection (CCP) and Early Adopters (EAP), and continued efforts to move toward sustainable maintenance models, we are replacing the aged EPDM roof (delayed the last 4 years due to funding limits) with the "Green Roof" concept of replacement.

Solar energy would be added to take care of this buildings domestic hot water needs. This would be the final step in modernizing our HVAC system in this structure and compliments the high efficiency, modulating condensing boilers added in 2010.

Project	2011	2012	2013	2014	2015	Total
Solar and Green Roof		95,000				95,000
Total		95,000				95,000

Funding	2011	2012	2013	2014	2015	Total
Capital Improvement Bond		95,000				95,000